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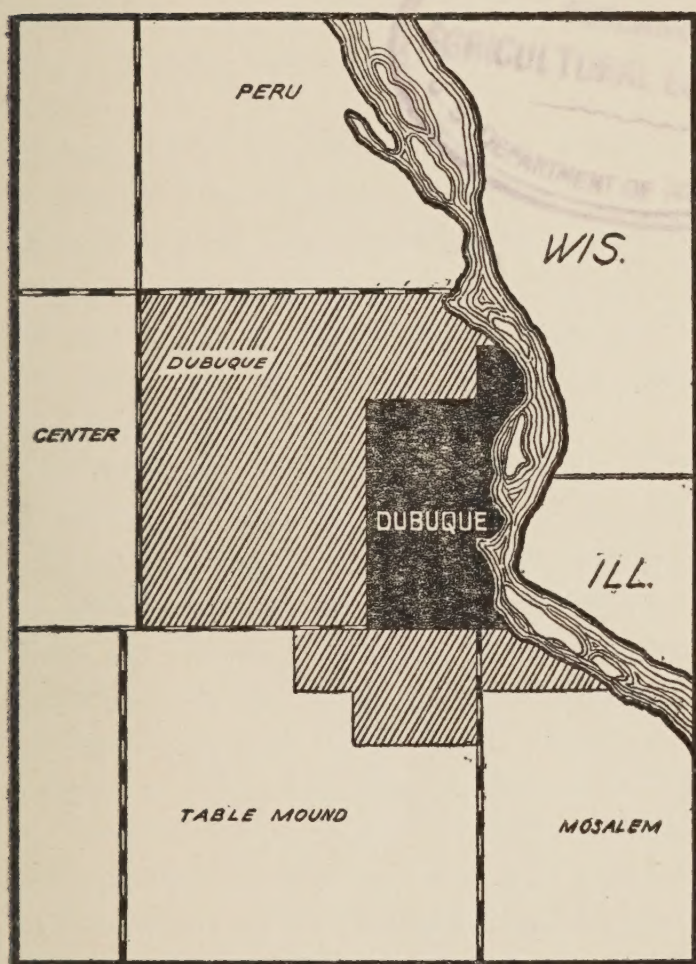
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Commodity Information Series
Milk Leaflet No. 2

THE DUBUQUE MILK LICENSE

HOW IT OPERATES



The Dubuque Milk Sales Area

LICENSE No. 94

Agricultural Adjustment Administration

JANUARY 1935

THE DUBUQUE MILK LICENSE

DUBUQUE dairy interests have requested and received a Federal milk license under the Agricultural Adjustment Act.¹ The license consists of a series of regulations, established by the Secretary of Agriculture, to govern the marketing of milk. These regulations have the effect of law.

Designed to stabilize market conditions, the license sets minimum prices to be paid to producers by distributors, gives each producer an equal share of the market, and insures that all distributors will pay the same price for milk according to the use they make of it.

Dubuque is an interstate milk market. Of its total daily volume of about 60,000 pounds, it is estimated by local authorities that fully 40 percent is derived from producers on farms in Illinois and Wisconsin.

Associations of milk producers, producer-distributors, and individual pasteurizing companies were consulted before the license was drafted by the Agricultural Adjustment Administration, and it was the subject of a public hearing at Dubuque on October 26, 1934.

Milk producers are not licensed. Only distributing agencies buying and selling or handling milk in the sales area defined in the license are subject to the license directly.

The license is administered by a Market Administrator, appointed by the Secretary of Agriculture. His office is in Room 273, Federal Building, Dubuque, Iowa.

¹ License No. 94, effective Dec. 5, 1934.

The Sales Area Defined

The sales area is defined as follows:

Dubuque and its corporate limits; all territory in Dubuque township; sections 1, 2, 3, 11, and 12 in Table Mound township; and sections 5 and 6 of Mosalem township (see shaded portion of map on cover). East Dubuque, Ill., is not included in the license area.

No production zone is defined. The area from which milk may be obtained is subject only to local health regulations and certain restrictions on new producers.

What the License Does Not Attempt

The license does not set up resale prices to be charged consumers for milk.

It does not require producers, against their will, to sell milk to anyone, or deny them a fair market, or prevent them from selling milk at a premium above license prices.

It does not oblige distributors to buy milk from certain producers or groups of producers.

It does not supplant producers cooperative associations.

It has nothing to do with labor conditions, rates of pay for labor, the regulation of farm and milk-plant management, or distributing margins.

It does not prescribe any health regulations or ordinances.

What the License Seeks to Accomplish

The license is designed to secure several important objectives.

1. To maintain the income of milk producers at as high a point as may be justified by current supply and demand conditions on the market

The license establishes minimum prices payable to producers by distributors who

buy their milk. These prices at the time this is printed (February 1935) are scheduled on a classified use basis f. o. b. Dubuque, per 100 pounds, as follows:

- Class I milk (used in direct consumption)----- \$1. 60
 Class II milk (used for cream)-- $3\frac{1}{2}$ times the price at Chicago of 92-score butter, plus 20 percent, plus 20 cents per 100 pounds.
 Class III milk (used for all other purposes)-- $3\frac{1}{2}$ times the same butter price at Chicago, plus 15 cents per 100 pounds.

The prices are established on a 3.5-percent butterfat test, and distributors are obliged to pay or deduct 3 cents per hundredweight of milk for each one-tenth of 1-percent butterfat in milk above or below 3.5 percent.

2. To give each producer an equitable share of the market through a straight pool price arrangement supervised by the Market Administrator

By means of a pool of all the available money which distributors owe producers for their milk at the classified prices for which it is sold, and a pool of the total volume of milk supplied by all producers, the Market Administrator is able to give each producer an equitable share of the total sales value of the milk. This is based on the relation of each producer's deliveries to the total volume and total value of the milk.

3. To insure that producers receive full value for milk according to the classes in which it is sold or used

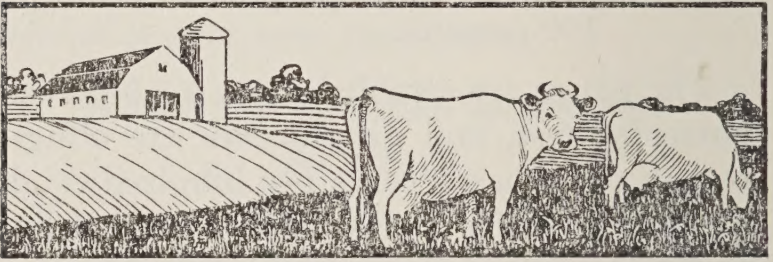
All distributors are required to report the total volume and value of their purchases and their sales by classes. At the end of each month the Market Administrator takes the information thus secured and computes a single pool price. This is how he computes that price:

From the distributors' reports he first calculates on the basis of use, at the prices stated in the license, the total value of milk

delivered by all producers and used in all classes.

Deductions from the total valuation may also be made for milk delivered to dealers by new producers and by producer-distributors, but in practice these deductions are so small as to have little effect on the final result.

The next step is to get the single blended pool price per hundredweight payable to all producers for the milk they delivered. To do this, the Market Administrator divides



the total amount available which distributors are obligated to pay according to the use they make of the milk, by the number of hundredweight of milk delivered to all distributors.

An example helps to explain how this works.

Suppose 5,000 hundredweight of milk has been delivered by producers to distributors in one period. Suppose it is sold by distributors as follows:

Class I milk for fluid purposes, 2,500 hundredweight, value under the license, \$1.60 per hundredweight, or \$4,000.

Class II milk for cream purposes, 1,500 hundredweight, value under the license based on the Chicago butter market, say \$1.50 per hundredweight, or \$2,250.

Class III milk, or that used in excess of the other classes, 1,000 hundredweight, value under the license based on the Chicago butter market, say \$1.20 per hundredweight, or \$1,200.

Adding the above amounts, distributors are obligated to pay \$7,450 for all milk delivered by all producers.

To determine the average pool price payable to producers, the Market Administra-

tor finally divides the \$7,450 by the 5,000 hundredweight of milk delivered, which gives \$1.49—the price to be paid producers for their milk. It is known as the “single blended pool price.”

Under the operation of such a pool plan the price average which producers will get in the long run is measured to a great extent by the rate of production delivered to distributors and its relation in turn to the rate of consumer demand. Under high volume of production and slow demand the average return to farmers will be reduced.

4. To guard against failure or undue delay in payment for milk

Distributors are required to establish financial responsibility through bonds or periodic advance deposits.

5. To check the accuracy of reports, tests, and weights made by distributors on milk delivered by producers

Where cooperative associations have not already provided this service for their members, the Market Administrator checks distributors' tests and weights of milk. Under authority of the Secretary of Agriculture he has access to the books and records of distributors for this purpose, as well as to verify the receipts and sales of milk or to compile general market information—all being confidential in respect to individual companies or individuals.

6. To help maintain equitable relations between producers on the Dubuque market and producers elsewhere

New producers who wish to come into the market are obliged to take the Class III milk price for all their deliveries for 90 days. Distributors outside the market are not allowed to dump cream on the Dubuque market at cut rates.

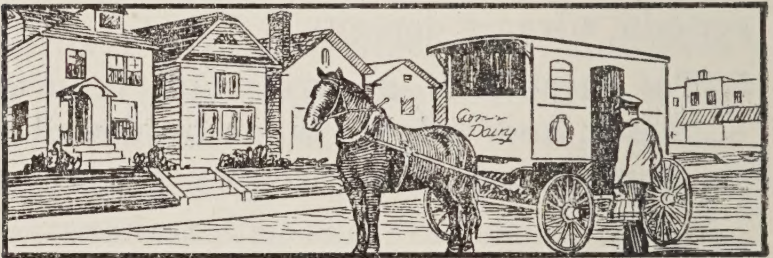
7. To provide, through a milk industry board, a means whereby a broad local point of view may be ascertained; as

assistance to the Market Administrator and the Agricultural Adjustment Administration

Appointment of a milk-industry board, under the terms of the license, is optional with the Secretary of Agriculture.

Distributors Who Are Also Producers

Records show that in Dubuque producer-distributors handle nearly 20 percent of the total volume of milk delivered. Obviously, for milk they produce themselves, they cannot operate under the method of payment and accounting that is required for milk purchased from wholesale shippers. Milk



produced by distributors, therefore, is exempt from most of the requirements of the license. Producer-distributors, however, make reports of their sales and uses to the Market Administrator. Milk which they buy from other producers or which they sell in bulk to other distributors is subject to the requirements of the license.

Operating Costs

To pay the expense of the supervisory services of the Market Administrator, the producers' groups agreed to the maximum deduction of 3 cents per 100 pounds of milk, and this provision is in the license. Producer-distributors also pay 3 cents per hundredweight of milk they handle.

Producers who do not get from their association such market services as check-testing, verifying of weights, market information, and guarantee against defaults in pay-

ments due them, receive such protection under the license in return for uniform deductions of not more than 4 cents per hundredweight of milk. This fund is kept separate by the Market Administrator for such purposes only, and if it reaches a total more than sufficient for these services, he may waive its collection in any period or may prorate the balance among those who furnished the fund.

Success Depends on People of Dubuque

The success of the Dubuque milk-license operation rests in large part with the people of the market and depends upon their will and cooperation.

Copies of the license, and answers to questions about it, will be available at the office



of the Market Administrator. It is his duty to explain the license and supervise it, but he is not responsible for making changes in its provisions.

Part of the General Recovery Program

The milk licenses established in Dubuque and nearly 50 other cities, through the Agricultural Adjustment Administration, are part of the general recovery program of the Government. Their purpose is to stabilize and improve market conditions and thus to increase the purchasing power of dairy farmers. This purchasing power, in turn, creates increased demand for industrial products, increased employment, and increased business activity.

